

**CITY OF SPIRIT LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
JUNE 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 12
 Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13 - 14
Statement of Activities	B 15 - 16
Governmental Fund Financial Statements:	
Balance Sheet	C 17 - 18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 19
Statement of Revenues, Expenditures, and Changes in Fund Balances	E 20 - 21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 22 - 23
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 24 - 25
Reconciliation of Statement of Net Assets - Proprietary Funds to the Statement of Net Assets	H 26
Statement of Revenues, Expenses, and Changes in Net Assets	I 27 - 28
Reconciliation of Statement of Revenue, Expenses, and Changes in Net Assets - Proprietary Funds to the Statement of Activities	J 29
Statement of Cash Flows	K 30 - 34
Notes to Financial Statements	35 - 54
 Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis)	55 - 56
Budget to GAAP Reconciliation	57 - 58
Notes to Required Supplementary Information - Budgetary Reporting	59
	<u>Schedule</u>
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2 61
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	3 62 - 63
Schedule of Expenditures of Federal Awards	4 64
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	65 - 66
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	67 - 68
Schedule of Findings and Questioned Costs	69 - 72

CITY OF SPIRIT LAKE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Blain Andera	Mayor	December 31, 2012
Jerry Harbst	Council Member	December 31, 2011
Jeff Thee	Council Member	December 31, 2011
Kevin Bice	Council Member	December 31, 2011
Clyde Ihrke	Council Member	December 31, 2009
Steve Balm	Council Member	December 31, 2009
Mark Stevens	Clerk/Administrator/Treasurer	December 31, 2009
Earl Maahs	Attorney	December 31, 2009

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Spirit Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake at June 30, 2009 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 55 through 59 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spirit Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements, except for the June 30, 2003 financial statements which we expressed a qualified opinion due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 4 including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wenther, Steve LHP

March 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Spirit Lake provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2009 Financial Highlights

- Revenues of the City's governmental activities decreased 5.57%, or approximately \$326,200 from fiscal 2008 to fiscal 2009. Property tax increased approximately \$550,400.
- Program expenditures decreased by 6.00% or approximately \$444,600 in fiscal 2009 from fiscal 2008. A summary of the changes is as follows:

	Approximate increase (decrease) from fiscal 2008
Public safety	\$ 8,100
Public works	114,100
Culture and recreation	(4,900)
Community and economic development	(35,500)
General government	35,200
Debt service	258,300
Capital projects	<u>(819,900)</u>
Net decrease	<u>\$ (444,600)</u>

- The City's net assets increased 5.48%, or approximately \$1,267,000, from June 30, 2008 to June 30, 2009. Of this amount, the net assets of the governmental funds increased by approximately \$822,800 and the net assets of the business type activities increased by approximately \$444,200.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the City.

Basis of Accounting

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

Reporting The City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste department. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Net Assets as of June 30, 2009

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,485,751	\$ 3,392,494	\$ 9,878,245
Capital assets	<u>38,142,782</u>	<u>16,832,721</u>	<u>54,975,503</u>
Total assets	<u>44,628,533</u>	<u>20,225,215</u>	<u>64,853,748</u>
Long-term liabilities	23,557,048	8,643,090	32,200,138
Other liabilities	<u>7,771,685</u>	<u>510,397</u>	<u>8,282,082</u>
Total liabilities	<u>31,328,733</u>	<u>9,153,487</u>	<u>40,482,220</u>
Net assets:			
Invested in capital assets - net of related debt	13,225,003	7,973,819	21,198,822
Restricted	1,148,560	20,072	1,168,632
Unrestricted	<u>(1,073,763)</u>	<u>3,077,837</u>	<u>2,004,074</u>
Total net assets	<u>\$13,299,800</u>	<u>\$11,071,728</u>	<u>\$24,371,528</u>

Net Assets as of June 30, 2008

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,931,789	\$ 2,530,017	\$ 9,461,806
Capital assets	<u>37,299,269</u>	<u>13,762,247</u>	<u>51,061,516</u>
Total assets	<u>44,231,058</u>	<u>16,292,264</u>	<u>60,523,322</u>
Long-term liabilities	24,589,899	5,524,715	30,114,614
Other liabilities	<u>7,164,168</u>	<u>140,004</u>	<u>7,304,172</u>
Total liabilities	<u>31,754,067</u>	<u>5,664,719</u>	<u>37,418,786</u>
Net assets:			
Invested in capital assets - net of related debt	12,803,378	7,632,703	20,436,081
Restricted	1,254,947	20,062	1,275,009
Unrestricted	<u>(1,581,334)</u>	<u>2,974,780</u>	<u>1,393,446</u>
Total net assets	<u>\$12,476,991</u>	<u>\$10,627,545</u>	<u>\$23,104,536</u>

Changes in Net Assets for the Year Ended June 30, 2009

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 77,049	\$ 2,653,799	\$ 2,730,848
Operating grants, contributions, and restricted interest	472,180	14,477	486,657
Capital grants, contributions, and restricted interest	16,382		16,382
General revenues:			
Property and other city taxes	2,058,536		2,058,536
Tax increment financing	2,082,723		2,082,723
Local option sales tax	750,656		750,656
Unrestricted investment earnings	37,540	24,031	61,571
Unrestricted miscellaneous	36,237		36,237
Gain (loss) on sale of capital assets	30,043		30,043
Operating transfers	(97,000)	97,000	
Total revenues	<u>5,464,346</u>	<u>2,789,307</u>	<u>8,253,653</u>
Program expenses:			
Public safety	1,002,348		1,002,348
Public works	1,476,214		1,476,214
Culture and recreation	589,779		589,779
Community and economic development	126,528		126,528
General government	390,928		390,928
Debt service	1,055,740		1,055,740
Water		1,419,121	1,419,121
Sewer		231,918	231,918
Solid waste		694,085	694,085
Total expenses	<u>4,641,537</u>	<u>2,345,124</u>	<u>6,986,661</u>
Change in net assets	822,809	444,183	1,266,992
Net assets - beginning of year	<u>12,476,991</u>	<u>10,627,545</u>	<u>23,104,536</u>
Net assets - end of year	<u>\$13,299,800</u>	<u>\$11,071,728</u>	<u>\$24,371,528</u>

Net assets of governmental activities increased from FY08 by approximately \$822,800 or 6.59%. Net assets of business type activities increased from FY08 by approximately \$444,200 or 4.18%. The largest portion of the City's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Changes in Net Assets for the Year Ended June 30, 2008

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 101,013	\$ 2,688,807	\$ 2,789,820
Operating grants, contributions, and restricted interest	483,718	9,455	493,173
Capital grants, contributions, and restricted interest	6,734		6,734
General revenues:			
Property and other city taxes	1,512,556		1,512,556
Tax increment financing	2,848,645		2,848,645
Local option sales tax	754,080		754,080
Unrestricted investment earnings	80,067	46,208	126,275
Unrestricted miscellaneous	30,755		30,755
Gain (loss) on sale of capital assets	8,677	(1,587)	7,090
Operating transfers	(23,832)	23,832	
Total revenues	<u>5,802,413</u>	<u>2,766,715</u>	<u>8,569,128</u>
Program expenses:			
Public safety	956,214		956,214
Public works	1,472,552		1,472,552
Culture and recreation	600,298		600,298
Community and economic development	162,026		162,026
General government	368,387		368,387
Debt service	1,066,343		1,066,343
Water		1,418,898	1,418,898
Sewer		198,978	198,978
Solid waste		711,444	711,444
Total expenses	<u>4,625,820</u>	<u>2,329,320</u>	<u>6,955,140</u>
Change in net assets	1,176,593	437,395	1,613,988
Net assets - beginning of year	<u>11,300,398</u>	<u>10,190,150</u>	<u>21,490,548</u>
Net assets - end of year	<u>\$12,476,991</u>	<u>\$10,627,545</u>	<u>\$23,104,536</u>

Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds For the Years Ended June 30, 2009 and 2008

	2009 <u>All Funds</u>	2008 <u>All Funds</u>
Revenues	\$ 5,527,747	\$ 5,853,974
Expenditures	<u>6,961,434</u>	<u>7,406,032</u>
Net	(1,433,687)	(1,552,058)
Other financing sources and changes in inventories and prepaids	<u>532,606</u>	<u>5,418,568</u>
Increase (decrease) in fund balances	(901,081)	3,866,510
Fund balance - beginning of year	<u>(436,858)</u>	<u>(4,303,368)</u>
Fund balance - end of year	<u>\$ (1,337,939)</u>	<u>\$ (436,858)</u>

Governmental funds reported a combined fund deficit of \$1,337,939 at June 30, 2009 which was \$901,081 more than the fund deficit at June 30, 2008.

The general fund showed an increase of \$422,782 to \$800,970.

The capital projects fund showed a decrease in fund balance of \$1,353,091 and is showing a deficit of \$3,369,790. The decrease in fund balance was due in part to a bill received from the Iowa Department of Transportation of \$3,057,283 which was approximately \$700,000 more than anticipated. The deficit in this fund is due primarily to this liability.

Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds For the Years Ended June 30, 2009 and 2008

	Enterprise Funds		Internal Service Funds	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues	\$ 2,689,115	\$ 2,741,793	\$ 9,487	\$ 44,254
Expenses	<u>2,336,042</u>	<u>2,329,496</u>	<u>22,148</u>	<u>41,734</u>
Net	353,073	412,297	(12,661)	2,520
Net transfers	<u>(53,000)</u>	<u>(46,168)</u>	<u>775</u>	<u>166,137</u>
Increase (decrease) in net assets	300,073	366,129	(11,886)	168,657
Net assets - beginning of year	<u>10,343,153</u>	<u>9,977,024</u>	<u>574,714</u>	<u>406,057</u>
Net assets - end of year	<u>\$10,643,226</u>	<u>\$10,343,153</u>	<u>\$ 562,828</u>	<u>\$ 574,714</u>

Proprietary funds reported combined net assets of \$11,206,054 at June 30, 2009 which was an increase of \$288,187 over the net assets at June 30, 2008.

The water, sewer, and solid waste funds all showed increases in net assets of \$228,059, \$15,112, and \$56,902, respectively. The internal services funds showed a combined decrease in net assets of \$11,886.

Budgetary Highlights

Over the course of the year, the City amended the budget twice. The final amendment was approved on May 12, 2009. These amendments were to cover additional expenditures primarily in the capital projects, debt service, and business-type functions. Disbursements did not exceed budgeted amounts.

Capital Assets and Debt Administration

Capital Assets Administration

The City's capital assets are summarized as follows:

June 30, 2009

	Governmental Activities	Business Type Activities	Total
Land	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress	6,833,299	4,487,878	11,321,177
Buildings and improvements	1,800,184	5,814,548	7,614,732
Water towers		2,958,292	2,958,292
Equipment and vehicles	3,011,913	1,507,588	4,519,501
Infrastructure	33,089,735	6,149,226	39,238,961
Total capital assets	45,148,034	21,014,391	66,162,425
Less accumulated depreciation	7,005,252	4,181,670	11,186,922
Net capital assets	<u>\$38,142,782</u>	<u>\$16,832,721</u>	<u>\$54,975,503</u>
Depreciation expense	<u>\$ 900,651</u>	<u>\$ 369,762</u>	<u>\$ 1,270,413</u>

June 30, 2008

	Governmental Activities	Business Type Activities	Total
Land	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress	12,008,983	3,114,578	15,123,561
Buildings and improvements	1,934,184	5,814,548	7,748,732
Water towers		891,356	891,356
Equipment and vehicles	2,859,538	1,507,588	4,367,126
Infrastructure	26,243,249	6,149,226	32,392,475
Total capital assets	43,458,857	17,574,155	61,033,012
Less accumulated depreciation	6,159,588	3,811,908	9,971,496
Net capital assets	<u>\$37,299,269</u>	<u>\$13,762,247</u>	<u>\$51,061,516</u>
Depreciation expense	<u>\$ 839,443</u>	<u>\$ 349,261</u>	<u>\$ 1,188,704</u>

Major additions to government activities capital assets include the 2007 lighting project, the 2008 PCC project, and the library parking lot project. As noted previously, the cost of work done by the DOT came in higher than anticipated. Those additional costs were capitalized.

Major additions to the business type activities capital assets include work on the water treatment plant expansion project and sewer rehabilitation projects.

The City sold the Mainsail building for \$134,235 (net of expenses).

Debt Administration

At June 30, 2009, the City had \$32,301,567 in bonds and other long-term debt, compared to \$30,232,485 last year as shown below.

Outstanding Debt at Year-End

	June 30,	
	<u>2009</u>	<u>2008</u>
General obligation bonds and notes	\$14,254,567	\$11,740,485
General obligation annual appropriation bonds	15,405,000	15,700,000
Water revenue capital loan notes	<u>2,642,000</u>	<u>2,792,000</u>
Total	<u>\$32,301,567</u>	<u>\$30,232,485</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$14,254,567 is within its constitutional debt limit of \$21,720,914. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations. The annual appropriation bonds count toward the City's debt limitation only to the extent of principal and interest due within the next fiscal year.

The City issued \$325,000 in general obligation capital loan notes and \$3,389,567 of general obligation water improvement bonds (reported in the water enterprise fund) during the year ended June 30, 2009.

Economic Factors Bearing on the City's Future

The City made substantial progress in improving its overall financial condition. We achieved our primary short-term goal to increase General Fund balances. This was accomplished by increasing tax revenue, controlling expenditures, and disposing of assets. Expenditure controls extend to all general government activities and will continue for the next few years.

The City's long-term goals include reducing the City's debt burden, improving financial controls and management practices, and addressing maintenance of existing facilities and infrastructure. An increased emphasis on economic development is also expected. Capital projects will continue to be addressed but on a more limited basis and when possible, undertaken without incurring external debt. City administration and financial advisors will routinely review outstanding debt to determine if refinancing is prudent and advisable.

The City has had favorable increases in its tax base over the past several years. This has been due to growth in commercial activity, improvements to existing properties, and market valuation increases for all properties. National economic trends are being felt in the Lakes Area but fortunately to a lesser extent than many other areas. The local economy deteriorated throughout the fiscal year and beyond. Building activity almost came to a complete halt during 2009. Employment at our largest employers was not greatly affected but overall job opportunities were not available. In the 2009 tourist season, visitor spending declined. Recent local real estate market trends indicate that property valuations have stabilized after a small decline.

State financial difficulties will be a challenge in fiscal year 2010 and fiscal year 2011 as they impact local government. As a result, fiscal year 2010 has become a difficult year with reductions in many revenues. The City's short-term goal will be to maintain its financial position in the face of declining revenues and growth in expenditures.

As calendar 2009 drew to a close, the national economy appears to be improving. In Spirit Lake, the employment picture has brightened and the real estate market is showing signs of more activity. Prospects seem positive for a good 2010 tourist season.

In fiscal year 2010, the City will experience a decline in general fund balances due to revenue reductions. In spite of budget reductions, we are unable to maintain our fund balances at the level they were carried over from fiscal year 2009. The fiscal year 2011 City Budget is a bare maintenance budget. We have budgeted revenues conservatively and did not plan for any special projects. All positions are maintained and our service levels are not reduced. A reduction in long-term debt is planned for fiscal year 2011.

In spite of the economy, the City continues to interest developers. While little concrete activity is seen in late winter 2010, there are prospects for some very significant new commercial developments.

The City will continue looking ahead to the future. The City has updated its Comprehensive Land Use Plan and is nearly complete with the approval of a new Zoning Ordinance and Subdivision Ordinance. We conducted a housing assessment in 2009 and are considering strategies to improve affordable housing in the City. Plans are in the works for beginning a new business and industrial park as the first one is nearly full. Other work is also underway to strengthen the City's economic development tools and improve infrastructure. A new incentive program to enhance downtown properties is in place. The City is also investigating the possibility of replacing the aging City Hall building.

In conclusion, the gains we made in fiscal year 2009 enabled us to carry through the difficult times we experienced in fiscal year 2010 without facing a financial crisis. The local economy was only slightly affected by the national economic recession and it appears set for a turnaround as fiscal year 2010 comes to a close. While we will go into fiscal year 2011 with a very limited budget, the outlook is positive, giving the City the opportunity to continue its efforts to grow the City and enhance the excellent quality of life we have in the Iowa Great Lakes.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Hall, 1803 Hill Avenue, Spirit Lake, Iowa 51360.

BASIC FINANCIAL STATEMENTS

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 2,294,920	\$ 2,467,414	\$ 4,762,334
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent	42,268		42,268
Succeeding year	1,988,554		1,988,554
Tax increment financing:			
Delinquent	68,119		68,119
Succeeding year	2,300,000		2,300,000
Accounts and unbilled usage	4,609	274,095	278,704
Special assessments - current portion		1,662	1,662
Accrued interest	2,036	1,491	3,527
Due from (to) other funds	(446,787)	446,787	
Due from other governments	174,408	2,002	176,410
Inventories	31,237	34,876	66,113
Prepaid expenses	26,387	23,005	49,392
Restricted assets:			
Cash and pooled investments		42,607	42,607
Special assessments - net of current portion		1,666	1,666
Loan fees - net of accumulated amortization		96,889	96,889
Capital assets - net of accumulated depreciation	<u>38,142,782</u>	<u>16,832,721</u>	<u>54,975,503</u>
TOTAL ASSETS	<u>44,628,533</u>	<u>20,225,215</u>	<u>64,853,748</u>

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Accounts payable	\$ 3,331,574	\$ 280,033	\$ 3,611,607
Retainages payable	3,119	156,182	159,301
Due to other governments		14,422	14,422
Medical claims payable	1,691	1,460	3,151
Salaries payable	64,426	34,239	98,665
Accrued interest payable	82,321	24,061	106,382
Deferred revenues:			
Succeeding year property tax	1,988,554		1,988,554
Succeeding year tax increment financing	2,300,000		2,300,000
Long-term liabilities:			
Portion of payable due within one year:			
Customer deposits		22,535	22,535
Compensated absences	54,059	42,185	96,244
General obligation bonds	1,440,000	130,000	1,570,000
Revenue bond		155,000	155,000
Portion of payable due after one year:			
General obligation bonds	22,062,989	5,806,370	27,869,359
Revenue bond	<u> </u>	<u>2,487,000</u>	<u>2,487,000</u>
TOTAL LIABILITIES	<u>31,328,733</u>	<u>9,153,487</u>	<u>40,482,220</u>
NET ASSETS			
Invested in capital assets - net of related debt	13,225,003	7,973,819	21,198,822
Restricted for:			
Debt service	(51,906)	20,072	(31,834)
Special revenue purposes	1,200,466		1,200,466
Unrestricted	<u>(1,073,763)</u>	<u>3,077,837</u>	<u>2,004,074</u>
TOTAL NET ASSETS	<u>\$13,299,800</u>	<u>\$11,071,728</u>	<u>\$24,371,528</u>

CITY OF SPIRIT LAKE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Services</u>		
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety	\$1,002,348	\$ 69,904	\$ 42,355	
Public works	1,476,214		354,263	
Culture and recreation	589,779	7,145	71,171	\$ 16,382
Community and economic development ...	126,528		3,688	
General government	390,928			
Interest and fees on long-term debt	<u>1,055,740</u>		<u>703</u>	
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,641,537</u>	<u>77,049</u>	<u>472,180</u>	<u>16,382</u>
BUSINESS TYPE ACTIVITIES:				
Water	1,419,121	1,562,342	12,287	
Sewer	231,918	280,968		
Solid waste	<u>694,085</u>	<u>810,489</u>	<u>2,190</u>	
TOTAL BUSINESS TYPE ACTIVITIES	<u>2,345,124</u>	<u>2,653,799</u>	<u>14,477</u>	
 TOTAL	 <u>\$6,986,661</u>	 <u>\$2,730,848</u>	 <u>\$486,657</u>	 <u>\$ 16,382</u>

GENERAL REVENUES:	
Property and other city taxes levied for:	
General purposes	
Debt	
Tax increment financing	
Local option sales tax	
Unrestricted investment earnings	
Unrestricted miscellaneous	
Gain on sale of capital assets	
Operating transfers	
TOTAL GENERAL REVENUES	

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (890,089)		\$ (890,089)
(1,121,951)		(1,121,951)
(495,081)		(495,081)
(122,840)		(122,840)
(390,928)		(390,928)
<u>(1,055,037)</u>	<u> </u>	<u>(1,055,037)</u>
<u>(4,075,926)</u>	<u> </u>	<u>(4,075,926)</u>
	\$ 155,508	155,508
	49,050	49,050
	<u>118,594</u>	<u>118,594</u>
	<u>323,152</u>	<u>323,152</u>
<u>(4,075,926)</u>	<u>323,152</u>	<u>(3,752,774)</u>
2,058,509		2,058,509
27		27
2,082,723		2,082,723
750,656		750,656
37,540	24,031	61,571
36,237		36,237
30,043		30,043
<u>(97,000)</u>	<u>97,000</u>	<u> </u>
<u>4,898,735</u>	<u>121,031</u>	<u>5,019,766</u>
822,809	444,183	1,266,992
<u>12,476,991</u>	<u>10,627,545</u>	<u>23,104,536</u>
<u>\$13,299,800</u>	<u>\$11,071,728</u>	<u>\$24,371,528</u>

CITY OF SPIRIT LAKE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
ASSETS:			
Cash and pooled investments	\$ 838,847	\$ 65	\$ 844,464
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent	33,127		
Succeeding year	1,540,717		
Tax increment financing:			
Delinquent			68,119
Succeeding year			2,300,000
Accounts	4,609		
Accrued interest	691		768
Due from other governments	11,126	134,348	
Inventories	31,237		
Prepaid expenses	<u>26,387</u>		
 TOTAL ASSETS	 <u>\$2,486,741</u>	 <u>\$ 134,413</u>	 <u>\$3,213,351</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable	\$ 88,862		
Due to other funds			
Retainages payable			
Salaries and benefits payable	56,192		
Deferred revenue:			
Succeeding year property tax	1,540,717		
Succeeding year tax increment financing			\$2,300,000
TOTAL LIABILITIES	<u>1,685,771</u>		<u>2,300,000</u>
 FUND BALANCES:			
Reserved for debt service			
Reserved for inventories and prepaid expenses	57,624		
Unreserved:			
Designated for economic development	355,655		
Designated for park development	4,300		
Undesignated reported in:			
General fund	383,391		
Special revenue funds		\$ 134,413	913,351
Capital projects funds			
TOTAL FUND BALANCES	<u>800,970</u>	<u>134,413</u>	<u>913,351</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$2,486,741</u>	 <u>\$ 134,413</u>	 <u>\$3,213,351</u>

EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 30,373	\$ 301,477	\$144,021	\$2,159,247
27 66,855		9,114 380,982	42,268 1,988,554
			68,119 2,300,000 4,609
15	198	20 28,934	1,692 174,408 31,237 26,387
<u>\$ 97,270</u>	<u>\$ 301,675</u>	<u>\$563,071</u>	<u>\$6,796,521</u>
	\$3,221,559 446,787 3,119	\$ 21,153 8,234	\$3,331,574 446,787 3,119 64,426
\$ 66,855		380,982	1,988,554 2,300,000
<u>66,855</u>	<u>3,671,465</u>	<u>410,369</u>	<u>8,134,460</u>
30,415			30,415 57,624 355,655 4,300
		152,702	383,391 1,200,466 (3,369,790)
<u>30,415</u>	<u>(3,369,790)</u>	<u>152,702</u>	<u>(1,337,939)</u>
<u>\$ 97,270</u>	<u>\$ 301,675</u>	<u>\$563,071</u>	<u>\$6,796,521</u>

CITY OF SPIRIT LAKE
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C \$ (1,337,939)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$45,148,034 and the accumulated depreciation is \$7,005,252. 38,142,782

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. 134,326

Long-term liabilities, including bonds and other long-term debt payable, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. (23,639,369)

NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A \$13,299,800

CITY OF SPIRIT LAKE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
REVENUES:			
Property tax	\$1,437,212		
Tax increment financing			\$2,082,723
Other city taxes	204,582	\$ 750,656	
Licenses and permits	20,460		
Use of money and property	7,632	1,090	20,887
Intergovernmental	78,422		
Charges for services	27,477		
Miscellaneous	72,194		
TOTAL REVENUES	<u>1,847,979</u>	<u>751,746</u>	<u>2,103,610</u>
EXPENDITURES:			
Public safety	805,033		
Public works	421,000		
Culture and recreation	340,357	120,000	
Community and economic development	126,528		
General government	326,130		
Debt service			
Capital projects			
TOTAL EXPENDITURES	<u>2,019,048</u>	<u>120,000</u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(171,069)</u>	<u>631,746</u>	<u>2,103,610</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	438,470		
Operating transfers out		(630,801)	(2,145,911)
Proceeds from sale of capital assets	140,035		
Bond proceeds			
TOTAL OTHER FINANCING SOURCES (USES)	<u>578,505</u>	<u>(630,801)</u>	<u>(2,145,911)</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	407,436	945	(42,301)
FUND BALANCES - BEGINNING OF YEAR	378,188	133,468	955,652
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES	<u>15,346</u>		
FUND BALANCES - END OF YEAR	<u>\$ 800,970</u>	<u>\$ 134,413</u>	<u>\$ 913,351</u>

EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 27		\$ 400,900	\$ 1,838,139
			2,082,723
		15,815	971,053
			20,460
494	\$ 5,277	354	35,734
	11,632	359,757	449,811
			27,477
<u>400</u>	<u>500</u>	<u>29,256</u>	<u>102,350</u>
<u>921</u>	<u>17,409</u>	<u>806,082</u>	<u>5,527,747</u>
		155,735	960,768
		446,436	867,436
		70,759	531,116
			126,528
		62,998	389,128
2,415,656			2,415,656
	<u>1,670,802</u>		<u>1,670,802</u>
<u>2,415,656</u>	<u>1,670,802</u>	<u>735,928</u>	<u>6,961,434</u>
<u>(2,414,735)</u>	<u>(1,653,393)</u>	<u>70,154</u>	<u>(1,433,687)</u>
2,409,119		47,000	2,894,589
	(17,252)	(48,400)	(2,842,364)
			140,035
<u>7,446</u>	<u>317,554</u>		<u>325,000</u>
<u>2,416,565</u>	<u>300,302</u>	<u>(1,400)</u>	<u>517,260</u>
1,830	(1,353,091)	68,754	(916,427)
28,585	(2,016,699)	83,948	(436,858)
			15,346
<u>\$ 30,415</u>	<u>\$(3,369,790)</u>	<u>\$ 152,702</u>	<u>\$(1,337,939)</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS
 PER EXHIBIT E \$ (916,427)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets	\$1,854,156	
Deletions - net of accumulated depreciation	(109,992)	
Depreciation expense	<u>(900,651)</u>	843,513

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year	31,237	
Prepaid expenses - end of year	26,387	
Inventories - beginning of year	(17,086)	
Prepaid expenses - beginning of year	<u>(25,192)</u>	15,346

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year new issues exceeded repayments, as follows:

New issues	(325,000)	
Amortization of bond discount	(13,797)	
Repayments	<u>1,370,000</u>	1,031,203

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year	(54,059)	
Accrued interest payable - end of year	(82,321)	
Compensated absences - beginning of year	55,707	
Accrued interest payable - beginning of year	<u>85,843</u>	5,170

CITY OF SPIRIT LAKE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES - Continued
 FOR THE YEAR ENDED JUNE 30, 2009

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities.

\$ (155,996)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
 PER EXHIBIT B

\$ 822,809

CITY OF SPIRIT LAKE
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2009

	ASSETS			
	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
ASSETS				
Cash and pooled investments	\$ 913,666	\$ 514,964	\$ 608,840	\$ 2,037,470
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage	217,770	41,965	14,360	274,095
Special assessments - current portion		1,662		1,662
Accrued interest	864	257	352	1,473
Due from other funds			446,787	446,787
Due from other governments	1,230		772	2,002
Inventories	18,498		16,378	34,876
Prepaid expenses	17,853	982	4,170	23,005
Restricted assets:				
Customer deposits - cash	22,535			22,535
Revenue note sinking fund - cash	20,072			20,072
Special assessments - net of current portion		1,666		1,666
Loan fees - net of accumulated amortization	96,889			96,889
Capital assets - net of accumulated depreciation	<u>12,790,033</u>	<u>3,544,494</u>	<u>498,194</u>	<u>16,832,721</u>
TOTAL ASSETS	<u>14,099,410</u>	<u>4,105,990</u>	<u>1,589,853</u>	<u>19,795,253</u>
LIABILITIES:				
Accounts payable	211,930	24,680	43,423	280,033
Medical claims payable				
Retainages payable	147,131	9,051		156,182
Due to other governments	14,422			14,422
Salaries and benefits payable	22,012	3,452	8,775	34,239
Accrued interest payable	21,911	2,150		24,061
Long-term liabilities:				
Portion of payable due within one year:				
Customer deposits	22,535			22,535
Compensated absences	35,444	1,215	5,526	42,185
General obligation bonds payable	110,000	20,000		130,000
Revenue notes payable	155,000			155,000
Portion of payable due after one year:				
Revenue notes payable	2,487,000			2,487,000
General obligation bonds payable - net of unamortized bond discount	<u>5,244,567</u>	<u>561,803</u>		<u>5,806,370</u>
TOTAL LIABILITIES	<u>8,471,952</u>	<u>622,351</u>	<u>57,724</u>	<u>9,152,027</u>
NET ASSETS:				
Invested in capital assets - net of related debt	4,545,947	2,929,678	498,194	7,973,819
Restricted for revenue note retirement	20,072			20,072
Unrestricted	<u>1,061,439</u>	<u>553,961</u>	<u>1,033,935</u>	<u>2,649,335</u>
TOTAL NET ASSETS	<u>\$ 5,627,458</u>	<u>\$3,483,639</u>	<u>\$1,532,129</u>	<u>\$10,643,226</u>

EXHIBIT G

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 87,728	\$477,889	\$565,617
39	323	362
<u>87,767</u>	<u>478,212</u>	<u>565,979</u>
3,151		3,151
<u>3,151</u>	<u> </u>	<u>3,151</u>
<u>84,616</u>	<u>478,212</u>	<u>562,828</u>
<u>\$ 84,616</u>	<u>\$478,212</u>	<u>\$562,828</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO
 THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G \$10,643,226

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds and to
 fund future equipment purchases. A portion of the assets and liabilities of the
 internal service funds is included in business type activities in the Statement
 of Net Assets.

428,502

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$11,071,728

CITY OF SPIRIT LAKE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
OPERATING REVENUES:				
Charges for services	\$1,562,342	\$ 280,968	\$ 810,489	\$ 2,653,799
Reimbursements from operating funds				
Miscellaneous	<u>6,287</u>		<u>2,190</u>	<u>8,477</u>
TOTAL OPERATING REVENUES	<u>1,568,629</u>	<u>280,968</u>	<u>812,679</u>	<u>2,662,276</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services	957,649	130,087	633,444	1,721,180
Depreciation	237,149	73,905	58,708	369,762
Claims and administrative charges				
TOTAL OPERATING EXPENSES	<u>1,194,798</u>	<u>203,992</u>	<u>692,152</u>	<u>2,090,942</u>
OPERATING INCOME (LOSS)	<u>373,831</u>	<u>76,976</u>	<u>120,527</u>	<u>571,334</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	7,594	5,970	7,275	20,839
Lease income	6,000			6,000
Amortization of loan fees	(4,501)			(4,501)
Interest expense and loan service fees:				
General obligation bonds	(122,831)	(27,434)		(150,265)
Revenue notes	<u>(90,334)</u>			<u>(90,334)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(204,072)</u>	<u>(21,464)</u>	<u>7,275</u>	<u>(218,261)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>169,759</u>	<u>55,512</u>	<u>127,802</u>	<u>353,073</u>
Operating transfers in	100,000			100,000
Operating transfers out	<u>(41,700)</u>	<u>(40,400)</u>	<u>(70,900)</u>	<u>(153,000)</u>
TOTAL TRANSFERS - NET	<u>58,300</u>	<u>(40,400)</u>	<u>(70,900)</u>	<u>(53,000)</u>
CHANGE IN NET ASSETS	228,059	15,112	56,902	300,073
NET ASSETS - BEGINNING OF YEAR	<u>5,399,399</u>	<u>3,468,527</u>	<u>1,475,227</u>	<u>10,343,153</u>
NET ASSETS - END OF YEAR	<u>\$5,627,458</u>	<u>\$3,483,639</u>	<u>\$1,532,129</u>	<u>\$10,643,226</u>

EXHIBIT I

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$ 2,198</u>	<u> </u>	<u>\$ 2,198</u>
<u>2,198</u>	<u> </u>	<u>2,198</u>
<u>22,148</u>	<u> </u>	<u>22,148</u>
<u>22,148</u>	<u> </u>	<u>22,148</u>
<u>(19,950)</u>	<u> </u>	<u>(19,950)</u>
349	\$ 6,940	7,289
<u>349</u>	<u>6,940</u>	<u>7,289</u>
<u>(19,601)</u>	<u>6,940</u>	<u>(12,661)</u>
	150,000	150,000
	<u>(149,225)</u>	<u>(149,225)</u>
	<u>775</u>	<u>775</u>
(19,601)	7,715	(11,886)
<u>104,217</u>	<u>470,497</u>	<u>574,714</u>
<u>\$ 84,616</u>	<u>\$478,212</u>	<u>\$562,828</u>

CITY OF SPIRIT LAKE
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2009

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I \$ 300,073

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds and to fund
 future equipment purchases. A portion of the change in net assets of the internal
 service funds is reported with business type activities..... 144,110

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 444,183

CITY OF SPIRIT LAKE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers	\$1,641,003	\$ 281,325	\$ 828,017	\$2,750,345
Other operating receipts	5,624		2,183	7,807
Cash payments to employees for services	(425,756)	(71,752)	(192,890)	(690,398)
Cash payments for goods and services	<u>(610,528)</u>	<u>(58,920)</u>	<u>(429,664)</u>	<u>(1,099,112)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>610,343</u>	<u>150,653</u>	<u>207,646</u>	<u>968,642</u>
CASH FLOWS FROM NONCAPITAL				
FINANCING ACTIVITIES:				
Operating transfers in			213	213
Operating transfers out	<u>(165,382)</u>	<u>(87,448)</u>	<u>(517,900)</u>	<u>(770,730)</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>(165,382)</u>	<u>(87,448)</u>	<u>(517,687)</u>	<u>(770,517)</u>
CASH FLOWS FROM CAPITAL AND				
RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets	(2,916,024)	(179,233)		(3,095,257)
General obligation bond proceeds	3,346,082			3,346,082
Special assessments received		1,662		1,662
Principal paid on revenue notes	(150,000)			(150,000)
Interest and loan service fees paid on revenue notes	<u>(90,740)</u>			<u>(90,740)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>189,318</u>	<u>(177,571)</u>		<u>11,747</u>
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Interest on investments	7,212	5,868	7,715	20,795
Interest on special assessments		449		449
Lease income	<u>6,000</u>			<u>6,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,212</u>	<u>6,317</u>	<u>7,715</u>	<u>27,244</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	647,491	(108,049)	(302,326)	237,116
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>308,782</u>	<u>623,013</u>	<u>911,166</u>	<u>1,842,961</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 956,273</u>	<u>\$ 514,964</u>	<u>\$ 608,840</u>	<u>\$2,080,077</u>

EXHIBIT K

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 2,198		\$ 2,198
<u>(26,689)</u>	<u> </u>	<u>(26,689)</u>
<u>(24,491)</u>	<u> </u>	<u>(24,491)</u>
	\$150,000	150,000
<u> </u>	<u>(149,225)</u>	<u>(149,225)</u>
<u> </u>	<u>775</u>	<u>775</u>
<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>
310	6,961	7,271
<u> </u>	<u> </u>	<u> </u>
<u>310</u>	<u>6,961</u>	<u>7,271</u>
(24,181)	7,736	(16,445)
<u>111,909</u>	<u>470,153</u>	<u>582,062</u>
<u>\$ 87,728</u>	<u>\$477,889</u>	<u>\$565,617</u>

CITY OF SPIRIT LAKE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2009

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS)	<u>\$373,831</u>	<u>\$ 76,976</u>	<u>\$120,527</u>	<u>\$ 571,334</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	237,149	73,905	58,708	369,762
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage	(12,102)	357	17,530	5,785
(Increase) in due from other governments	(663)		(7)	(670)
(Increase) decrease in inventories	3,034		(4,894)	(1,860)
Decrease in prepaid expenses	991	60	342	1,393
Increase (decrease) in accounts payable	(1,288)	(989)	13,219	10,942
(Decrease) in medical claims payable ...				
Increase in due to other governments ...	747			747
Increase in salaries payable	5,135	569	1,670	7,374
Increase in customer deposits	1,300			1,300
Increase (decrease) in compensated absences	<u>2,209</u>	<u>(225)</u>	<u>551</u>	<u>2,535</u>
TOTAL ADJUSTMENTS	<u>236,512</u>	<u>73,677</u>	<u>87,119</u>	<u>397,308</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$610,343</u>	<u>\$150,653</u>	<u>\$207,646</u>	<u>\$ 968,642</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments	\$913,666	\$514,964	\$608,840	\$2,037,470
Restricted assets - cash:				
Customer deposits	22,535			22,535
Revenue note sinking fund	<u>20,072</u>			<u>20,072</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$956,273</u>	<u>\$514,964</u>	<u>\$608,840</u>	<u>\$2,080,077</u>

EXHIBIT K

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$ (19,950)</u>	<u> </u>	<u>\$ (19,950)</u>
(4,541)		(4,541)
<u>(4,541)</u>	<u> </u>	<u>(4,541)</u>
<u>\$ (24,491)</u>	<u>\$</u>	<u>\$ (24,491)</u>
\$ 87,728	\$477,889	\$565,617
<u> </u>	<u> </u>	<u> </u>
<u>\$ 87,728</u>	<u>\$477,889</u>	<u>\$565,617</u>

CITY OF SPIRIT LAKE
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2009

SUPPLEMENTAL CASH FLOW INFORMATION - GENERAL OBLIGATION BONDS PAYABLE

Principal and interest payments on the water and sewer portion of the general obligation bonds payable is paid by the debt service fund. A portion of those payments were transferred from the water and sewer funds to the debt service fund and is included in cash flows from noncapital financing activities - operating transfers out.

A summary of the interest and principal payments paid on the water and sewer portion of the general obligation bonds payable is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Payments made by the debt service fund from funds transferred to debt service:			
Principal	\$110,000	\$ 20,000	\$130,000
Interest	113,682	26,648	140,330
Loan service fees		400	400
Less transferred by tax increment financing fund .	<u>(100,000)</u>	<u> </u>	<u>(100,000)</u>
Net transferred to the debt service fund	<u>\$123,682</u>	<u>\$ 47,048</u>	<u>\$170,730</u>

CITY OF SPIRIT LAKE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Local Option Sales Tax Fund - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

Proprietary Funds - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting

Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Funds are charges to customers for sales and services. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary funds report revenues net of sales tax where applicable.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records. Subsequent events were evaluated by management for disclosure up to the date of the auditors' report, which is the date the financial statements were available to be issued.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivables represent taxes collected by the County but not remitted to the City at June 30, 2009 and unpaid taxes. The succeeding year property tax receivables represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2008.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due from and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2009, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from the State of Iowa and other governments.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - Funds set aside for payment of the water revenue capital loan notes are classified as restricted assets since their use is restricted by the applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivables, special assessments receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2009 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund	\$ 8,426	\$ 3,817	\$ 4,609
Enterprise Funds:			
Water	217,840	70	217,770
Sewer	41,965		41,965
Solid waste	<u>17,623</u>	<u>3,263</u>	<u>14,360</u>
TOTAL	<u>\$285,854</u>	<u>\$ 7,150</u>	<u>\$278,704</u>

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
GOVERNMENTAL ACTIVITIES:				
COST OF CAPITAL ASSETS:				
Capital assets not being depreciated:				
Construction in progress	\$12,008,983	\$(5,175,684)		\$ 6,833,299
Land	<u>412,903</u>			<u>412,903</u>
Total capital assets not being depreciated	<u>12,421,886</u>	<u>(5,175,684)</u>		<u>7,246,202</u>
Capital assets being depreciated:				
Buildings	1,477,935		\$(134,000)	1,343,935
Improvements	456,249			456,249
Equipment and vehicles	2,859,538	183,354	(30,979)	3,011,913
Infrastructure	<u>26,243,249</u>	<u>6,846,486</u>		<u>33,089,735</u>
Total capital assets being depreciated	<u>31,036,971</u>	<u>7,029,840</u>	<u>(164,979)</u>	<u>37,901,832</u>
TOTAL COST OF CAPITAL ASSETS	<u>43,458,857</u>	<u>1,854,156</u>	<u>(164,979)</u>	<u>45,148,034</u>
ACCUMULATED DEPRECIATION:				
Buildings	460,825	29,418	(24,008)	466,235
Improvements	285,780	9,905		295,685
Equipment and vehicles	1,303,481	232,574	(30,979)	1,505,076
Infrastructure	<u>4,109,502</u>	<u>628,754</u>		<u>4,738,256</u>
TOTAL ACCUMULATED DEPRECIATION	<u>6,159,588</u>	<u>900,651</u>	<u>(54,987)</u>	<u>7,005,252</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$37,299,269</u>	<u>\$ 953,505</u>	<u>\$(109,992)</u>	<u>\$38,142,782</u>

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
BUSINESS TYPE ACTIVITIES:				
COST OF CAPITAL ASSETS:				
Capital assets not being depreciated:				
Construction in progress	\$ 3,114,578	\$1,373,300		\$ 4,487,878
Land	<u>96,859</u>	<u> </u>	<u> </u>	<u>96,859</u>
Total capital assets not being depreciated	<u>3,211,437</u>	<u>1,373,300</u>	<u> </u>	<u>4,584,737</u>
Capital assets being depreciated:				
Buildings	5,700,897			5,700,897
Improvements	113,651			113,651
Water towers	891,356	2,066,936		2,958,292
Equipment and vehicles	1,507,588			1,507,588
Infrastructure	<u>6,149,226</u>	<u> </u>	<u> </u>	<u>6,149,226</u>
Total capital assets being depreciated	<u>14,362,718</u>	<u>2,066,936</u>	<u> </u>	<u>16,429,654</u>
TOTAL COST OF CAPITAL ASSETS	<u>17,574,155</u>	<u>3,440,236</u>	<u> </u>	<u>21,014,391</u>
ACCUMULATED DEPRECIATION:				
Buildings	1,368,329	112,641		1,480,970
Improvements	98,965	1,696		100,661
Water towers	376,172	38,497		414,669
Equipment and vehicles	820,281	93,751		914,032
Infrastructure	<u>1,148,161</u>	<u>123,177</u>	<u> </u>	<u>1,271,338</u>
TOTAL ACCUMULATED DEPRECIATION	<u>3,811,908</u>	<u>369,762</u>	<u> </u>	<u>4,181,670</u>
BUSINESS TYPE CAPITAL ASSETS - NET	<u>\$13,762,247</u>	<u>\$3,070,474</u>	<u> </u>	<u>\$16,832,721</u>
COST OF LOAN FEES	\$ 61,610	\$ 48,000		\$ 109,610
LESS: Accumulated amortization	<u>8,220</u>	<u>4,501</u>	<u> </u>	<u>12,721</u>
LOAN FEES - NET	<u>\$ 53,390</u>	<u>\$ 43,499</u>	<u>\$</u>	<u>\$ 96,889</u>

Depreciation was charged to functions of the government as follows:

Governmental Activities:	
Public safety	\$ 36,819
Public works	768,233
Culture and recreation	93,120
General government	<u>2,479</u>
Total Governmental Activities	<u>\$900,651</u>
Business Type Activities:	
Water	\$237,149
Sewer	73,905
Solid waste	<u>58,708</u>
Total Business Type Activities	<u>\$369,762</u>

5. ECONOMIC DEVELOPMENT LOANS

The City had loaned money for economic development purposes. All loans were repaid or forgiven during the year ended June 30, 2009. Following is a summary of those loans:

Balance at June 30, 2008	\$139,137
Payments received	(100,000)
Loan forgiven	<u>(39,137)</u>
Balance at June 30, 2009	<u>\$</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Taxable issue	9-01-99	7.40 - 7.50%	\$ 400,000	6-1-2011
General obligation urban renewal, Series 2001A	10-01-01	3.90 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-01-01	4.20 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-01-02	4.10 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose	6-01-03	3.55 - 4.00%	4,200,000	6-1-2023
General obligation capital loan notes .	10-01-04	3.25 - 4.45%	2,280,000	6-1-2024
General obligation refunding bonds ...	4-01-05	3.00 - 3.35%	1,145,000	6-1-2012
General obligation annual appropriation bonds	8-01-05	3.50 - 4.35%	5,000,000	6-1-2025
General obligation urban renewal annual appropriation bonds	7-01-06	4.10 - 4.40%	4,300,000	6-1-2026
General obligation annual appropriation capital loan notes	6-11-07	4.40%	1,010,000	6-1-2018
General obligation bonds, Series 2007C (sewer)	6-01-07	4.25 - 4.60%	610,000	6-1-2027
General obligation capital loan note (water)	12-07-06	3.25%	2,076,000	6-1-2026
General obligation annual appropriation bonds	7-26-07	4.75%	5,390,000	6-1-2027
General obligation capital loan notes, Series 2008	10-07-08	3.00 - 3.95%	325,000	6-1-2014
General obligation water improvement bonds (water)	9-17-08	3.25%	3,389,567	6-1-2028
TOTAL				
Less reported in business-type activities:				
Water				
Sewer				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
Less unamortized bond discount				
NET GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
COMPENSATED ABSENCES				
TOTAL GOVERNMENTAL ACTIVITIES				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 140,000		\$ 45,000	\$ 95,000	\$ 45,000
1,000,000		250,000	750,000	250,000
160,000		40,000	120,000	40,000
865,000		200,000	665,000	225,000
4,200,000		280,000	3,920,000	280,000
2,055,000		100,000	1,955,000	100,000
640,000		160,000	480,000	160,000
5,000,000			5,000,000	
4,300,000			4,300,000	
1,010,000		85,000	925,000	85,000
610,000		20,000	590,000	20,000
2,070,485	\$ 4,515	110,000	1,965,000	110,000
5,390,000		210,000	5,180,000	195,000
	325,000		325,000	60,000
<u> </u>	<u>3,389,567</u>	<u> </u>	<u>3,389,567</u>	<u> </u>
27,440,485	3,719,082	1,500,000	29,659,567	1,570,000
(2,070,485)	(3,394,082)	(110,000)	(5,354,567)	(110,000)
<u>(610,000)</u>	<u> </u>	<u>(20,000)</u>	<u>(590,000)</u>	<u>(20,000)</u>
24,760,000	325,000	1,370,000	23,715,000	1,440,000
<u>(225,808)</u>	<u> </u>	<u>(13,797)</u>	<u>(212,011)</u>	<u> </u>
24,534,192	325,000	1,356,203	23,502,989	1,440,000
<u>55,707</u>	<u> </u>	<u>1,648</u>	<u>54,059</u>	<u>54,059</u>
<u>\$24,589,899</u>	<u>\$ 325,000</u>	<u>\$1,357,851</u>	<u>\$23,557,048</u>	<u>\$1,494,059</u>

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
BUSINESS TYPE ACTIVITIES:				
WATER PORTION OF GENERAL OBLIGATION NOTES				
SEWER PORTION OF GENERAL OBLIGATION BONDS				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTED IN BUSINESS-TYPE ACTIVITIES				
Less unamortized bond discount				
NET GENERAL OBLIGATION BONDS/NOTES REPORTED IN BUSINESS-TYPE ACTIVITIES				
REVENUE NOTES:				
Water revenue capital loan notes, Series 2003	5-20-03	3.25%	\$3,501,000	6-1-2023
CUSTOMER DEPOSITS				
COMPENSATED ABSENCES				
TOTAL BUSINESS TYPE ACTIVITIES				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$2,070,485	\$3,394,082	\$110,000	\$5,354,567	\$110,000
<u>610,000</u>	<u> </u>	<u>20,000</u>	<u>590,000</u>	<u>20,000</u>
2,680,485	3,394,082	130,000	5,944,567	130,000
<u>(8,655)</u>	<u> </u>	<u>(458)</u>	<u>(8,197)</u>	<u> </u>
2,671,830	3,394,082	129,542	5,936,370	130,000
2,792,000		150,000	2,642,000	155,000
21,235	1,300		22,535	22,535
<u>39,650</u>	<u>2,535</u>	<u> </u>	<u>42,185</u>	<u>42,185</u>
<u>\$5,524,715</u>	<u>\$3,397,917</u>	<u>\$279,542</u>	<u>\$8,643,090</u>	<u>\$349,720</u>

General Obligation Bonds/Notes

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$29,659,567 at June 30, 2009. The City issued \$4,800,000 of general obligation capital loan notes in June 2008. As of June 30, 2009, the City had received \$3,389,567 of advances on these notes.

A majority of the general obligation bonds are anticipated to be repaid from tax increment financing revenues, local option sales tax funds, and the water and sewer enterprise funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 3.00% to 7.50%.

Revenue Notes

The City has pledged future water customer revenues, net of specific operating expenses, to repay the \$3,501,000 water revenue capital loan notes issued in May 2003. Proceeds from the notes provided financing for a water plant addition. The notes are payable solely from water customer net revenues and are payable through 2023. Annual principal and interest payments are expected to require less than 50% of net revenues. Total principal and interest remaining to be paid on the notes are \$3,327,035. For the current year, principal and interest paid and total customer net revenues were \$240,740 and \$610,980, respectively. The notes bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2009, the City is in compliance with the revenue note resolution.

A summary of the City's long-term debt maturities is as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>General Obligation Bonds/Notes</u>			<u>General Obligation Bonds/Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$1,440,000	\$ 987,854	\$ 2,427,854	\$ 130,000	\$ 199,821	\$ 329,821
2011	1,465,000	931,076	2,396,076	340,000	195,396	535,396
2012	1,645,000	871,711	2,516,711	237,000	184,096	421,096
2013	1,175,000	807,181	1,982,181	394,000	176,143	570,143
2014	1,170,000	761,536	1,931,536	401,000	163,088	564,088
2015	1,475,000	715,404	2,190,404	376,000	149,806	525,806
2016	1,490,000	656,379	2,146,379	388,000	137,336	525,336
2017	1,510,000	596,281	2,106,281	395,000	124,426	519,426
2018	1,530,000	534,671	2,064,671	402,000	111,289	513,289
2019	1,430,000	471,369	1,901,369	415,000	97,923	512,923
2020	1,450,000	411,829	1,861,829	422,000	84,069	506,069
2021	1,465,000	350,584	1,815,584	431,000	69,968	500,968
2022	1,475,000	287,861	1,762,861	444,000	55,576	499,576
2023	1,510,000	224,106	1,734,106	452,000	40,686	492,686
2024	1,250,000	158,198	1,408,198	347,567	25,536	373,103
2025	1,090,000	102,218	1,192,218	160,000	13,740	173,740
2026	745,000	53,145	798,145	165,000	8,040	173,040
2027	400,000	19,000	419,000	45,000	2,070	47,070
Total	<u>\$23,715,000</u>	<u>\$8,940,403</u>	<u>\$32,655,403</u>	<u>\$5,944,567</u>	<u>\$1,839,009</u>	<u>\$ 7,783,576</u>

Year Ending June 30,	<u>Business-Type Activities</u>					
	<u>Water Revenue Capital Loan Notes</u>			<u>Total Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 155,000	\$ 85,865	\$ 240,865	\$ 285,000	\$ 285,686	\$ 570,686
2011	159,000	80,828	239,828	499,000	276,224	775,224
2012	164,000	75,660	239,660	401,000	259,756	660,756
2013	169,000	70,330	239,330	563,000	246,473	809,473
2014	174,000	64,837	238,837	575,000	227,925	802,925
2015	179,000	59,183	238,183	555,000	208,989	763,989
2016	185,000	53,365	238,365	573,000	190,701	763,701
2017	190,000	47,352	237,352	585,000	171,778	756,778
2018	196,000	41,178	237,178	598,000	152,467	750,467
2019	202,000	34,807	236,807	617,000	132,730	749,730
2020	208,000	28,243	236,243	630,000	112,312	742,312
2021	214,000	21,482	235,482	645,000	91,450	736,450
2022	220,000	14,528	234,528	664,000	70,104	734,104
2023	227,000	7,377	234,377	679,000	48,063	727,063
2024				347,567	25,536	373,103
2025				160,000	13,740	173,740
2026				165,000	8,040	173,040
2027				45,000	2,070	47,070
Total	<u>\$ 2,642,000</u>	<u>\$ 685,035</u>	<u>\$ 3,327,035</u>	<u>\$8,586,567</u>	<u>\$2,524,044</u>	<u>\$11,110,611</u>

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 272,593
	Emergency	48,400
	Capital Projects	12,252
	Proprietary:	
	Enterprise:	
	Water	1,700
	Sewer	400
	Solid waste	900
	Internal Service:	
	Equipment revolving	<u>102,225</u>
		<u>438,470</u>
Special Revenue:		
Road Use Tax	Proprietary:	
	Internal service:	
	Equipment revolving	<u>47,000</u>
Debt Service	Capital Projects	5,000
	Special Revenue:	
	Local option sales tax	358,208
	Tax increment financing	<u>2,045,911</u>
		<u>2,409,119</u>
Proprietary:		
Enterprise:		
Water	Special Revenue:	
	Tax increment financing	<u>100,000</u>
Internal service:		
Equipment Revolving	Proprietary:	
	Enterprise:	
	Water	40,000
	Sewer	40,000
	Solid Waste	<u>70,000</u>
		<u>150,000</u>
TOTAL OPERATING TRANSFERS		<u>\$3,144,589</u>

8. DUE FROM AND DUE TO OTHER FUNDS

The details of interfund receivables and payables at June 30, 2009 are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
Proprietary:		
Enterprise:		
Solid waste	Capital Projects	<u>\$ 446,787</u>

This represents an interfund loan to finance projects. It will be repaid with tax increment financing revenues.

9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual salary and the City is required to contribute 6.35% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$127,258, \$118,946, and \$116,912, respectively, equal to the required contributions for each year.

10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2009, and therefore is not recognized as a liability until used by the employee. The City's approximate contingent liability for the unvested sick leave as of June 30, 2009 is as follows:

Governmental activities	\$237,017
Business type activities	<u>169,019</u>
 TOTAL	 <u>\$406,036</u>

11. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$531,132 is outstanding at June 30, 2009. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

12. DEFICIT BALANCES

The capital projects fund had a deficit balance of \$3,369,790 at June 30, 2009. The deficit is due to a large payable due to the Iowa Department of Transportation. When this payable becomes due, the City anticipates using bond proceeds or transfers from other funds to eliminate the deficit.

13. COMMITMENTS

The City has entered into several contracts for water plant expansion, paving, lighting, and sewer rehabilitation projects. A summary of the uncompleted projects is as follows:

Contract total	\$4,297,678
Completed at June 30, 2009	<u>3,184,004</u>
Uncompleted	<u>\$1,113,674</u>

The City has also committed to share in the cost of a County project. The City's share is estimated to be \$258,000.

The City has committed funds to several nonprofit organizations, including \$100,000 per year for six more years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the City entered into contracts for a street reconstruction project and a sanitary sewer extension project totaling \$108,675. the City also issued \$1,585,000 of general obligation bonds which will be used to retire several older bond issues. The City also issued \$3,135,000 of general obligation bonds which will be used to repay the Iowa Department of Transportation for street improvements.

15. RISK MANAGEMENT

Since January 1, 1989, the City has been a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2009 were \$98,784.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2009, no liability has been recorded in the City's financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$3,151 reported in the fund at June 30, 2009 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2009. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2008	\$ 7,692
Incurred claims	22,148
Less claims paid	<u>(26,689)</u>
Unpaid claims - June 30, 2009	<u>\$ 3,151</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

16. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes	\$1,813,026		\$ 1,813,026
Other city taxes	970,243		970,243
Tax increment financing revenues	2,030,722		2,030,722
Licenses and permits	20,078		20,078
Use of money and property	36,480	\$ 34,066	70,546
Intergovernmental	444,811		444,811
Charges for services	27,477	2,750,345	2,777,822
Special assessments		2,111	2,111
Miscellaneous	<u>222,450</u>	<u>10,005</u>	<u>232,455</u>
TOTAL RECEIPTS	<u>5,565,287</u>	<u>2,796,527</u>	<u>8,361,814</u>
DISBURSEMENTS:			
Public safety	984,546		984,546
Public works	873,090		873,090
Culture and recreation	538,887		538,887
Community and economic development	5,870		5,870
General government	475,301		475,301
Debt service	2,685,985		2,685,985
Capital projects	1,150,182		1,150,182
Business type		<u>5,152,196</u>	<u>5,152,196</u>
TOTAL DISBURSEMENTS	<u>6,713,861</u>	<u>5,152,196</u>	<u>11,866,057</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	<u>(1,148,574)</u>	<u>(2,355,669)</u>	<u>(3,504,243)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in	3,612,318	150,213	3,762,531
Operating transfer out	(2,842,576)	(919,955)	(3,762,531)
Bond and note proceeds - net	325,000	3,346,082	3,671,082
Proceeds from sale of capital assets	<u>140,035</u>		<u>140,035</u>
TOTAL OTHER FINANCING SOURCES	<u>1,234,777</u>	<u>2,576,340</u>	<u>3,811,117</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS	86,203	220,671	306,874
BALANCE - BEGINNING OF YEAR	<u>2,073,044</u>	<u>2,425,023</u>	<u>4,498,067</u>
BALANCE - END OF YEAR	<u>\$2,159,247</u>	<u>\$2,645,694</u>	<u>\$ 4,804,941</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,813,026	\$ 1,835,198	\$ 1,835,198	\$ (22,172)
	970,243	997,902	964,302	5,941
	2,030,722	2,258,118	2,258,118	(227,396)
	20,078	60,800	47,800	(27,722)
\$ 7,271	63,275	110,500	110,500	(47,225)
	444,811	440,972	462,188	(17,377)
	2,777,822	3,287,973	3,202,973	(425,151)
	2,111	2,000	2,000	111
<u>2,198</u>	<u>230,257</u>	<u>152,000</u>	<u>225,900</u>	<u>4,357</u>
<u>9,469</u>	<u>8,352,345</u>	<u>9,145,463</u>	<u>9,108,979</u>	<u>(756,634)</u>
	984,546	983,784	1,130,070	145,524
	873,090	854,256	1,026,494	153,404
	538,887	630,135	605,472	66,585
	5,870	5,000	15,000	9,130
	475,301	548,595	536,981	61,680
	2,685,985	2,403,720	2,688,820	2,835
	1,150,182	561,790	1,779,484	629,302
<u>26,689</u>	<u>5,125,507</u>	<u>4,431,523</u>	<u>6,017,578</u>	<u>892,071</u>
<u>26,689</u>	<u>11,839,368</u>	<u>10,418,803</u>	<u>13,799,899</u>	<u>1,960,531</u>
<u>(17,220)</u>	<u>(3,487,023)</u>	<u>(1,273,340)</u>	<u>(4,690,920)</u>	<u>1,203,897</u>
150,000	3,612,531	4,434,167	5,987,405	(2,374,874)
(149,225)	(3,613,306)	(4,434,167)	(5,987,405)	2,374,099
	3,671,082	2,176,010	3,514,491	156,591
	140,035		134,235	5,800
<u>775</u>	<u>3,810,342</u>	<u>2,176,010</u>	<u>3,648,726</u>	<u>161,616</u>
(16,445)	323,319	902,670	(1,042,194)	1,365,513
<u>582,062</u>	<u>3,916,005</u>	<u>3,594,380</u>	<u>4,498,067</u>	<u>(582,065)</u>
<u>\$565,617</u>	<u>\$4,239,324</u>	<u>\$ 4,497,050</u>	<u>\$ 3,455,873</u>	<u>\$ 783,451</u>

CITY OF SPIRIT LAKE
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES	\$5,565,287	\$ (37,540)	\$ 5,527,747
EXPENDITURES/EXPENSES	<u>6,713,861</u>	<u>247,573</u>	<u>6,961,434</u>
NET	(1,148,574)	(285,113)	(1,433,687)
OTHER FINANCING SOURCES (USES) - NET ...	1,234,777	(717,517)	517,260
BEGINNING FUND BALANCES/NET ASSETS	2,073,044	(2,509,902)	(436,858)
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES	<u> </u>	<u>15,346</u>	<u>15,346</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$2,159,247</u>	<u>\$ (3,497,186)</u>	<u>\$ (1,337,939)</u>

Proprietary Funds		
<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$2,796,527	\$ (97,925)	\$ 2,698,602
<u>5,152,196</u>	<u>(2,794,006)</u>	<u>2,358,190</u>
(2,355,669)	2,696,081	340,412
2,576,340	(2,628,565)	(52,225)
2,425,023	8,492,844	10,917,867
<hr/>	<hr/>	<hr/>
<u>\$2,645,694</u>	<u>\$8,560,360</u>	<u>\$11,206,054</u>

CITY OF SPIRIT LAKE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$3,381,096. These budget amendments are reflected in the final budgeted amounts.

During the year, disbursements did not exceed budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	Emergency	Friends of the Library	Total
ASSETS:					
Cash and pooled investments	\$ 47,698	\$47,873		\$48,450	\$144,021
Receivables:					
Property tax:					
Delinquent		8,069	\$ 1,045		9,114
Succeeding year		380,982			380,982
Accrued interest				20	20
Due from other governments	<u>28,934</u>	<u> </u>	<u> </u>	<u> </u>	<u>28,934</u>
 TOTAL ASSETS	 <u>\$ 76,632</u>	 <u>\$436,924</u>	 <u>\$ 1,045</u>	 <u>\$48,470</u>	 <u>\$563,071</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 21,153				\$ 21,153
Salaries payable		\$ 8,234			8,234
Deferred revenue:					
Succeeding year property tax		<u>380,982</u>	<u> </u>	<u> </u>	<u>380,982</u>
TOTAL LIABILITIES	<u>21,153</u>	<u>389,216</u>	<u> </u>	<u> </u>	<u>410,369</u>
 FUND BALANCES:					
Undesignated:					
Reported in special revenue funds	<u>55,479</u>	<u>47,708</u>	<u>\$ 1,045</u>	<u>\$48,470</u>	<u>152,702</u>
TOTAL FUND BALANCES	<u>55,479</u>	<u>47,708</u>	<u>1,045</u>	<u>48,470</u>	<u>152,702</u>
 TOTAL LIABILITIES AND FUND EQUITY					
	 <u>\$ 76,632</u>	 <u>\$436,924</u>	 <u>\$ 1,045</u>	 <u>\$48,470</u>	 <u>\$563,071</u>

CITY OF SPIRIT LAKE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 ALL NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	Emergency	Friends of the Library	Total
REVENUES:					
Property taxes		\$353,742	\$47,158		\$400,900
Other city taxes		13,954	1,861		15,815
Use of money and property				\$ 354	354
Intergovernmental	\$354,263			5,494	359,757
Miscellaneous				<u>29,256</u>	<u>29,256</u>
TOTAL REVENUES	<u>354,263</u>	<u>367,696</u>	<u>49,019</u>	<u>35,104</u>	<u>806,082</u>
EXPENDITURES:					
Public safety		155,735			155,735
Public works	377,044	69,392			446,436
Culture and recreation		54,648		16,111	70,759
General government		<u>62,998</u>			<u>62,998</u>
TOTAL EXPENDITURES	<u>377,044</u>	<u>342,773</u>		<u>16,111</u>	<u>735,928</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(22,781)	24,923	49,019	18,993	70,154
OTHER FINANCING SOURCES (USES):					
Operating transfers in	47,000				47,000
Operating transfers out			<u>(48,400)</u>		<u>(48,400)</u>
NET CHANGE IN FUND BALANCES	24,219	24,923	619	18,993	68,754
FUND BALANCES - BEGINNING OF YEAR.....	<u>31,260</u>	<u>22,785</u>	<u>426</u>	<u>29,477</u>	<u>83,948</u>
FUND BALANCES - END OF YEAR	<u>\$ 55,479</u>	<u>\$ 47,708</u>	<u>\$ 1,045</u>	<u>\$48,470</u>	<u>\$152,702</u>

CITY OF SPIRIT LAKE
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST SEVEN YEARS

	Modified Accrual Basis			
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES:				
Property tax	\$ 1,838,139	\$ 1,287,697	\$ 1,462,918	\$ 1,129,537
Tax increment financing	2,082,723	2,848,645	1,872,314	2,172,594
Other city taxes	971,053	978,939	988,312	826,485
Licenses and permits	20,460	49,870	90,944	131,435
Use of money and property	35,734	123,098	139,049	97,431
Intergovernmental	449,811	432,505	1,038,973	454,263
Charges for services	27,477	13,448	19,308	121,608
Miscellaneous	<u>102,350</u>	<u>119,772</u>	<u>227,138</u>	<u>208,725</u>
 TOTAL REVENUES	 <u>\$ 5,527,747</u>	 <u>\$ 5,853,974</u>	 <u>\$ 5,838,956</u>	 <u>\$ 5,142,078</u>
 EXPENDITURES:				
Public safety	\$ 960,768	\$ 952,649	\$ 941,969	\$ 859,905
Public works	867,436	753,294	1,373,452	1,100,480
Culture and recreation	531,116	536,047	560,404	649,885
Community and economic development	126,528	162,026	413,350	485,132
General government	389,128	353,933	317,099	363,725
Debt service	2,415,656	2,157,365	3,094,800	1,879,487
Capital projects	<u>1,670,802</u>	<u>2,490,718</u>	<u>7,293,003</u>	<u>5,042,715</u>
 TOTAL EXPENDITURES	 <u>\$ 6,961,434</u>	 <u>\$ 7,406,032</u>	 <u>\$13,994,077</u>	 <u>\$10,381,329</u>

Schedule 3

Modified Accrual Basis		
<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 843,981	\$ 1,142,851	\$ 1,121,172
1,731,352	1,391,242	1,263,945
891,781	805,299	832,532
108,201	97,195	96,478
20,284	31,565	34,047
859,592	1,223,829	1,243,783
18,413	17,015	9,877
<u>443,630</u>	<u>258,407</u>	<u>169,736</u>
<u>\$ 4,917,234</u>	<u>\$ 4,967,403</u>	<u>\$ 4,771,570</u>
\$ 778,099	\$ 905,311	\$ 746,943
699,150	656,959	803,296
404,370	340,008	383,586
287,054	649,057	347,419
308,252	317,372	268,030
4,922,135	1,562,485	1,413,144
<u>3,701,608</u>	<u>4,212,887</u>	<u>3,161,707</u>
<u>\$11,100,668</u>	<u>\$ 8,644,079</u>	<u>\$ 7,124,125</u>

CITY OF SPIRIT LAKE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468	FS-30-08-DWSRF-023	<u>\$1,347,114</u>
 TOTAL			 <u>\$1,347,114</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Spirit Lake and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated March 12, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a

misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



March 12, 2010

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of Spirit Lake
Spirit Lake, IA 51360

Compliance

We have audited the compliance of the City of Spirit Lake, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Spirit Lake complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Wieder, Steve H. LLP

March 12, 2010

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Part I: Summary of the Independent Auditors' Results

- a. Unqualified opinions were issued on the financial statements.
- b. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No material weaknesses in internal control over the major program were noted.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66.468 - Capitalization Grants for Drinking Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Spirit Lake did not qualify as a low-risk auditee.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2009

Part II: Findings Related to the General Purpose Financial Statements

Reportable Conditions:

- II-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

- II-B-09 Miscellaneous Receivables - We noted that the City has numerous amounts due from customers in addition to utility receivables. These are primarily additional solid waste charges, permits, and miscellaneous. The city does not have a system which keeps track of the amounts due. In addition, many of these are considerably past due and may be uncollectible.

Recommendation - We recommend the City purchase a simple accounts receivable package that could keep track of the receivables - amounts billed, payments received, and balances due. A monthly reconciliation should be done which reconciles payments received to deposited amounts. The City should monitor these amounts and write off amounts that are uncollectible.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

Instances of Non-Compliance:

No findings were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No findings were noted.

Reportable Conditions:

No material weaknesses in internal control over the major program were reported.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-09 Certified Budget - We noted that disbursements in the capital projects function exceeded the original budgeted amounts before the first budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend the budget prior to allowing disbursements to exceed budgeted amounts, if applicable.

Conclusion - Response accepted.

- IV-B-09 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-09 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-09 Business Transactions - The City paid Spirit Lake Mainsail (Mainsail) \$41,000 during the year ended June 30, 2009. Mayor Blain Andera is the executive director of Mainsail. This does not appear to represent a conflict of interest since the mayor is only an employee of Mainsail and does not have a vote on the Mainsail funding.

The only other related party transaction noted was a \$252 payment to Converged Technologies, LLC, a company owned by Jerry Harbst, Council Member. The transaction does not appear to represent a conflict of interest since the amount is less than \$1,500.

- IV-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- IV-G-09 Revenue Bonds/Notes - No non-compliance with revenue note provisions were noted.

CITY OF SPIRIT LAKE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting - Continued

IV-H-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-I-09 Financial Condition - The Capital Projects Fund had a deficit balance of \$3,369,790 at June 30, 2009.

Recommendation - The City needs to investigate alternatives to eliminate this deficit and return this fund to a sound financial condition.

Response - The deficit is due to a large payable due to the Iowa Department of Transportation. When this payable becomes due, the City anticipates using bond proceeds or transfers from other funds to eliminate the deficit.

Conclusion - Response accepted.